

DEPARTMENT OF TRANSPORTATION**AUDITS AND INVESTIGATIONS**

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May 21, 2009

Mr. Craig Bloomquist
Director of Public Works Accounting
City of Los Angeles, Department of Public Works
200 North Spring Street, Room 967
Los Angeles, California 90012

Re: City of Los Angeles, Department of Public Works, Bureau of Street Lighting
Audit of Indirect Cost Rate Proposal for Fiscal Year 2007
File No: P1190-0681

Dear Mr. Bloomquist:

We have audited the City of Los Angeles (City), Department of Public Works, Bureau of Street Lighting's (DPW-BSL) Indirect Cost Rate Proposal (ICRP) for the fiscal year (FY) ended June 30, 2007, to determine whether the ICRP is presented in accordance with 2 Code of Federal Regulations (CFR) Part 225 (formerly Office of Management and Budget Circular A-87) and the California Department of Transportation's (Department) Local Programs Procedures (LPP) 04-10. The DPW-BSS management is responsible for the fair presentation of the ICRP. The DPW-BSL proposed the following indirect cost rates:

	FY 2007 (CAP 29)
Department of Administration & Support Rate	11.14%
Compensated Time Off	19.37%
The base for the two rates above is salaries and wages.	
* Fringe Benefits Rate	38.04%
* Central Services Rate	11.69%
The base for the two rates above is salaries and wages plus compensated time-off.	

**These rates were approved by the U. S. Department of Health and Human Services.*

Our audit was conducted in accordance with the Standards for Performance Audits set forth in the *Government Auditing Standards* issued by the Comptroller General of the United States of America. The audit was less in scope than an audit performed for the purpose of expressing an opinion on the financial statements of the City. Therefore, we did not audit and are not expressing an opinion on the City's financial statements.

The standards require that we plan and perform the audit to obtain reasonable assurance about whether the data and records reviewed are free of material misstatement, as well as material noncompliance with fiscal provisions relative to the ICRP. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the data and records reviewed. An audit also includes assessing the accounting principles used and significant estimates made by the City and DPW-BSL as well as evaluating the overall presentation.

The accompanying ICRP was prepared on a basis of accounting practices prescribed in 2 CFR Part 225 and the Department's LPP 04-10, and is not intended to present the results of operations of the City in conformity with generally accepted accounting principles.

The scope of the audit was limited to select financial and compliance activities. The audit consisted of a recalculation of the rates and figures included in the ICRP, review and comparison of the costs used in the ICRP for allowability and reasonableness, inquiries into material variances in costs, inquiries of City and DPW-BSL personnel, and reliance placed on the single audit report for the FYs ended June 30, 2006, and 2007, and prior audit field work performed by the Department on March 15, 2005. We believe that our audit provides a reasonable basis for our conclusion.

Because of inherent limitations in any financial management system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the financial management system to future periods are subject to the risk that the financial management system may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

The results of this audit were communicated to Ching Ilagan, DPW Accountant, on July 18, 2008. Our findings and recommendations take into consideration the DPW-BSL's response to our draft finding dated September 3, 2008. Our findings and recommendations, a summary of the DPW-BSL's response and our analysis of the response are detailed below. See Attachment I for a copy of DPW-BSL's response.

AUDIT RESULTS

Based on audit work performed, the DPW-BSL's ICRP for the FY ended June 30, 2007, is presented in accordance with 2 CFR Part 225 and LPP 04-10. Therefore, the indirect cost rates on the previous page are approved as submitted. The approval is based on the understanding that a carry-forward provision applies and no adjustment will be made to previously approved rates.

Finding 1

We reviewed the FY ending June 30, 2007, Single Audit and Management letter issued to the City and found that the City has not resolved the exceptions identified by the independent

auditor. The reported exceptions and recommendations are relevant to the DPW-BSL and therefore to the grant funds billed to the Department. They are, in part, as follows:

Finding 07-01 - During the FY ended June 30, 2007, the following deficiencies were noted in the City's procurement system, Supply Management System (SMS), and process:

1. The receipts information was not being input in a timely manner.
2. The payment voucher approval process lacked segregation of duties.
3. Reconciliation by account balances between SMS and FMIS was not being performed.
4. There was no internal voucher reconciliation between SMS and FMIS.
5. The data was not synchronized among the tables within SMS.
6. Completed purchase orders were not being properly closed.
7. Sequel updates were not being properly prepared.

Finding 07-8 - During FY 2007, the DPW, Bureau of Street Services charged equipment expenditures in the amount of \$365,557 to Highway Planning and Construction Program. These equipment expenditures were calculated based on an outdated equipment rates schedule, which has not been updated since 2001. Also, the written methodology, source of data, and worksheets supporting the rates schedule were not completely available for our audit. Moreover, we noted clerical errors in the worksheets that were provided to us.

49 CFR, Part 18.20 (b)(1) states, in part, that financial management systems provide for the accurate, current and complete disclosure of the financial results of financially assisted activities. 49 CFR, Part 18.20 (b) & (6) require in part, that grantees and subgrantees maintain records which adequately identify the source and application of funds, and that they are supported by such source documentation as time and attendance records.

2 CFR Part 225, Appendix B (26) Materials and supplies costs. (b) Purchased materials and supplies shall be charged at their actual prices, net of applicable credits. Withdrawals from general stores or stockrooms should be charged at their actual net cost under any recognized method of pricing inventory withdrawals, consistently applied.

2 CFR Part 225, Appendix A (C) Basic Guidelines. (1) Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria: (j) Be adequately documented.

The City's failure to implement corrective actions to address the audit exceptions could result in the City billing for supplies and equipment at costs/rates that it cannot support. Also, if State and federal funds were used to reimburse unsupported supply and equipment costs because the City failed to take corrective actions the City could be designated "High Risk", which would result in restrictions imposed on the City by the Department.

Recommendation

We recommend the City, as well as the DPW-BSL, implement appropriate corrective actions as recommended by the single audit, to ensure that these issues are resolved.

DPW-BSL's Response

See Attachment I for detailed response.

Analysis of Response

The DPW-BSL's response sufficiently addressed our finding for now, however the finding and recommendation remain.

This report is intended solely for the information of the DPW-BSL, Department Management, the California Transportation Commission and the Federal Highway Administration (FHWA). However, this report is a matter of public record and its distribution is not limited.

Please retain the approved ICRP for your files. Copies were sent to the Department's District 7, the Department's Division of Accounting, and the FHWA. If you have any questions, please contact Elena Guerrero at (916) 323-7954 or Cliff Vose, Audit Manager, at (916) 323-7917.


for MARYANN CAMPBELL-SMITH
Chief, External Audits

Attachments

- c: Brenda Bryant, Director, Financial Services, Federal Highway Administration
- Sue Kiser, Director, Planning and Air Quality, Federal Highway Administration
- Dan Mundy, Branch Chief, Rural Transit and Procurement, Division of Mass Transportation
- David Saia, Senior Transportation Engineer, Policy Development and Quality Assurance, Division of Local Assistance
- Jenny Tran, Associate Accounting Analyst, Local Assistance Accounting Branch, Division of Accounting
- Kirk Cessna, Local Assistance Engineer, District 7
- P1190-0681

City of Los Angeles, DPW response:

Finding 07-1

1. The receipts information was not being input in a timely manner -

The upgrade to PeopleSoft 9.0, scheduled to be implemented on 10/31/08, will include the implementation of standard operating procedures that will enforce the completion of receipts within a timely manner. The upgrade will also include the implementation of automated reports to be used to notify users via email to close late receipts within 3 days.

2. The payment voucher approval process lacked segregation of duties -

A reevaluation of roles and assignments will be performed and included as part the standard operating procedures. The standard operating procedures will be implemented with the upgrade on 10/31/08.

3. Reconciliation by account balances between SMS and FMIS was not being performed -

A daily reconciliation of the account balances will be performed and will be included as part of the standard operating procedures. The standard operating procedures will be implemented with the upgrade on 10/31/08.

4. There was no internal voucher reconciliation between SMS and FMIS -

A reconciliation will be performed on a regular basis and will be included as part of the standard operating procedures. The standard operating procedures will be implemented with the upgrade on 10/31/08.

5. The data was not synchronized among the tables within SMS -

Synchronization among the SMS tables will be performed on a regular basis and will be included as part of the standard operating procedures. The standard operating procedures will be implemented with the upgrade on 10/31/08.

6. Completed purchase orders were not being properly closed -

The proper and timely closing of purchase orders will be enforced as part of the standard operating procedures. The standard operating procedures will be implemented with the upgrade on 10/31/08.

7. Sequel (SQL) updates were not being properly prepared -

A quality control process is in place and a review of the roles and responsibilities is being performed for the SQL update tasks. The roles and responsibilities will be reviewed as part of the upgrade steps and implemented with the upgrade on 10/31/08.

Finding 07-8

The Bureau of Street Services has been working with General Services to update our equipment rates for future billings. General Services purchases all vehicles for the City and we have obtained a listing from them of the purchase price, in addition, on an annual basis they report fuel and maintenance costs for the fleet. We are in the process of finalizing a program to calculate out the hourly rate using these numbers.

**CITY OF LOS ANGELES
DEPARTMENT OF PUBLIC WORKS
BUREAU OF STREET LIGHTING**

Indirect Cost Plan

The indirect cost rate contained herein is for use on grants, contracts and other agreements with the Federal Government and California Department of Transportation (Department), subject to the conditions in Section II. This plan was prepared by the City of Los Angeles for Public Works, Bureau of Street Lighting (City) and approved by the Department.

SECTION I: Rates

<u>Rate Type</u>	<u>Effective Period</u>	<u>Rate</u>	<u>Applicable To</u>
Department			
Administration Support:			
Fixed with carry forward	7/01/06 to 6/30/07 CAP29	11.14%	All Programs
Central Services	7/01/06 to 6/30/07 CAP 29	11.69%	All Programs
CTO	7/01/06 TO 6/30/07 CAP 29	19.37%	All Programs

SECTION II: General Provisions

A. Limitations:

The rates in this Agreement are subject to any statutory or administrative limitations and apply to a given grant, contract, or other agreement only to the extent that funds are available. Acceptance of the rates is subject to the following conditions: (1) Only costs incurred by the organization were included in its indirect cost pool as finally accepted; such costs are legal obligations of the organization and are allowable under the governing cost principles; (2) The same costs that have been treated as indirect costs are not claimed as direct costs; (3) Similar types of costs have been accorded consistent accounting treatment; and (4) The information provided by the organization which was used to establish the rates is not later found to be materially incomplete or inaccurate by the Federal Government or the Department. In such situations the rates would be subject to renegotiation at the discretion of the Federal Government or the Department; (5) Prior actual costs used in the calculation of the approved rates are contained in the grantee's Single Audit, which was prepared in accordance with OMB Circular A-133. If a Single Audit is not required to be performed, then audited financial statements should be used to support the prior actual costs; and, (6) These rates are based on an estimate of the costs to be incurred during the period.

B. Accounting Changes:

This Agreement is based on the accounting system purported by the organization to be in effect during the Agreement period. Changes to the method of accounting for costs, which affect the amount of reimbursement resulting from the use of this Agreement, require prior approval of the authorized representative of the cognizant agency. Such changes include, but are not limited to, changes in the charging of a particular type of cost from indirect to direct. Failure to obtain approval may result in cost disallowances.

C. Fixed Rate with Carry Forward:

The fixed rates used in this Agreement are based on estimate of the costs for the periods covered by the rates. When the actual costs for these periods are determined—either by the grantee's Single Audit or if a Single Audit is not required, then by the grantee's audited financial statements—any differences between the application of the fixed rate and actual costs will result in an over or under recovery of costs. The over or under recovery will be carried forward, as an adjustment to the calculation of the indirect cost rates, to the second fiscal year subsequent to the fiscal years covered by this plan.

D. Audit Adjustments:

Immaterial adjustments resulting from the audit of information contained in this plan shall be compensated for in the subsequent indirect cost plan approved after the date of the audit adjustment. Material audit adjustments will require reimbursement from the grantee.

E. Use by Other Federal Agencies:

Authority to approve this agreement by the Department has been delegated by the Federal Highway Administration, California Division. The purpose of this approval is to permit subject local government to bill indirect costs to Title 23 funded projects administered by the Federal Department of Transportation (DOT). This approval does not apply to any grants, contracts, projects, or programs for which DOT is not the cognizant Federal agency.

The approval will also be used by the Department in State-only funded projects.

F. Other:

If any Federal contract, grant, or other agreement is reimbursing indirect costs by a means other than the approved rates in this Agreement, the organization should (1) credit such costs to the affected programs, and (2) apply the approved rates to the appropriate base to identify the proper amount of indirect costs allocable to these programs.

G. Rate Calculation:

	FY 06-07 CAP29
Department Administration & Support:	
Estimated FY 2006-07 Indirect Costs	2,911,670
Carry Forward	-1,542,065
Total FY 2006-07 Indirect Costs	<u>1,369,605</u>
 Estimated FY 2006-07 Total Salaries and Wages	 12,289,354
FY 2006-07 Indirect Cost Rate	11.14%
 Central Services:	
Estimated FY 2006-07 Central Services Costs	5,193,061
Carry Forward	-3,537,909
Total FY 2006-07 Central Services Costs	<u>1,655,152</u>
 Estimated Total FY 2006-07 Salaries and Wages	 14,158,851
FY 2006-07 Central Services Rate	11.69%

CTO:

FY 2006-07 Total Compensated Time Off Costs	2,274,242
FY 2006-07 Compensated Time Off Salary Base	11,741,348
FY 2006-07 CTO Rate	19.37%

CERTIFICATION OF INDIRECT COSTS

This is to certify that I have reviewed the indirect cost rates proposal submitted herewith and to the best of my knowledge and belief:

- (1) All costs included in this proposal to establish billing or final indirect costs rates for fiscal year ended June 30, 2007 are allowable in accordance with the requirements of the Federal and State award(s) to which they apply and 2 Code of Federal Regulations Part 225, "Cost Principles for State, Local and Indian Tribal Governments." Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.
- (2) All costs included in this proposal are properly allocable to Federal and State awards on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal Government and the Department will be notified of any accounting changes that would affect the fixed rate.

I declare that the foregoing is true and correct.

Governmental Unit: City of Los Angeles – Department of Public Works (DPW)

Signature: Craig V. Bloomquist

Signature: Ninfa A. Malabuyoc

Reviewed, Approved and Submitted by:

Prepared by:

Name of Official: Craig V. Bloomquist

Name of Official: Ninfa Malabuyoc

Title: Director – DPW/Accounting

Title: Assistant Director – DPW/Accounting

Date of Execution: 4/16/09

Telephone No.: (213) 978-0994

INDIRECT COST RATE APPROVAL

The Department has reviewed this indirect cost plan and hereby approves the plan.

Amada Maenpaa
Signature

Reviewed and Approved by:

Amada Maenpaa
Name of Audit Manager

Title: Senior Mgmt Auditor

Date: May 21, 2009

Phone Number: (916) 323-7868

Elena Guerrero
Signature

Reviewed and Approved by:

Elena Guerrero
Name of Auditor

Title: Auditor

Date: May 21, 2009

Phone Number: (916) 323-7954